

IRS TAX TIP 2003-40

RETIREMENT SAVINGS CONTRIBUTIONS CREDIT

This tax credit, which will be available only from 2002 through 2006, could help you offset the cost of the first \$2,000 contributed to IRAs, 401(k)s and certain other retirement plans, says the IRS.

The Retirement Savings Contributions Credit applies to individuals with incomes up to \$25,000 (\$37,500 for a head of household) and married couples with incomes up to \$50,000. You must also be at least age 18, not a full-time student, and not claimed as a dependent on another person's return.

The credit is a percentage of the qualifying contribution amount, with the highest rate for taxpayers with the least income, as shown in this chart:

Credit Rate	Income for Married, Joint	Income for Head of Household	Income for Others
50%	up to \$30,000	up to \$22,500	up to \$15,000
20%	\$30,001–32,500	\$22,501–24,375	\$15,001–16,250
10%	\$32,501–50,000	\$24,376–37,500	\$16,251–25,000

When figuring this credit, you must subtract the amount of distributions you have received from your retirement plans from the contributions you have made. This rule applies for distributions starting two years before the year the credit is claimed and ending with the filing deadline for that tax return.

For your 2002 tax return, you would first subtract distributions received from January 1, 2000, through April 15, 2003, from your total 2002 retirement contributions. Then you would multiply the result (but not more than \$2,000) by the credit rate that applies to your filing status and income level.

The subtraction rule does not apply to distributions which are rolled over into another plan or to withdrawals of excess contributions.

The Retirement Savings Contributions Credit is in addition to whatever other tax benefits may result from the retirement contributions. For example, most workers at these income levels may deduct all or part of their contributions to a traditional IRA. Contributions to a 401(k) plan are not subject to income tax until withdrawn from the plan.

For more information, check out the IRS Web site, *IRS.gov*.

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